

WASHINGTON, DC – Today, Rep. Pete Stark (D-CA) issued the following statement to the House Financial Services Capital Markets Subcommittee at its hearing on the accounting treatment of employee stock options:

“Chairman Baker, Ranking Member Kanjorski, and Members of the Capital Markets Subcommittee, I appreciate the opportunity to present a different view to those you are hearing today who support passage of H.R. 1372, the Broad-Based Stock Option Plan Transparency Act. Contrary to what one might think from the makeup of the witnesses at today’s hearing, there are those of us in Congress who believe that stock options should be expensed on companies’ SEC filing reports if they are claiming those expenses on their IRS forms. The books should be the same. I want to thank Ranking Member Kanjorski for his willingness to submit my views on the accounting treatment of stock options.

“While H.R. 1372, the Broad-Based Stock Option Plan Transparency Act of 2003 is the only bill that is being represented by its sponsors at today’s hearing, I wanted to make the Subcommittee aware that I have a bill that supports expensing stock options. My bill, H.R. 626, Ending the Double Standard for Stock Options Act has 10 cosponsors in the House and is the companion bill to S. 182 which has bipartisan support in the Senate. My bill, Ending the Double Standard for Stock Options Act, would bring fairness to the issue of stock option expensing by requiring expensing of stock options on the SEC earnings report in order to take the IRS tax deduction for stock option compensation.

“Under current law, companies can deduct stock option expenses from their income taxes as a cost of doing business, just like employee wages. However, companies are not required to similarly report these business expenses on their SEC financial statement to stockholders. This lack of clear stock option accounting gives executives incentive to give themselves exorbitant stock option compensation packages that mislead investors who do not see this compensation deducted from SEC earnings reports. This perverse incentive was highlighted by the scandals of Enron, WorldCom and others in the recent past.

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Statement of Congressman Stark

“Last year, U.S. workers and investors faced an onslaught of accounting scandals which led to bankrupt corporations, diminishing pension funds and mass lay-offs. While Congress addressed many of the accounting problems that led to the deluge of scandals, the treatment of stock option expensing has been ignored.

“Prior to last year’s scandals, nearly all companies relegated their stock option expenses to merely a footnote in their SEC report and did not reflect these expenses in their bottom line earnings reports to the SEC. But since last year’s scandals, many more companies have responded to investors’ demands that stock options be expensed in the earnings reports. Over 120 companies, including Amazon.com, Coca-Cola, and General Motors, have announced that they will voluntarily expense stock options on their SEC earnings reports in 2003. Other companies, however, have claimed that they will not expense stock options until forced to do so.

“Currently, the Financial Accounting Standards Board (FASB) is in the process of developing a fair method for stock option expensing. I urge my Congressional colleagues to refrain from placing special interest political pressure on FASB in order to prevent them from following through with a formal rule on stock option expensing. FASB has tried to take this step as long ago as 1994, but special interest lobbying got the best of them then. It is my hope that this time FASB will be able to come forth with a final rule requiring companies to treat stock options as an expense in order to provide an accurate account of each company’s fiscal health. However, in the event that FASB succumbs to political pressures from certain Members of Congress and their special interest allies as they did in 1994, I would urge Congress to take a serious look at the need for legislating a requirement to treat stock options as an expense on earnings statements and to use our bill, Ending the Double Standard for Stock Options Act, as a template for moving forward.

“In addition to this statement, I have enclosed for the hearing record H.R. 626, Ending the Double Standard for Stock Options Act, and a letter to FASB from 30 Members of Congress supporting the need for stock option expensing.

“I thank my colleagues on the Capital Markets Subcommittee for allowing this statement and the supporting documents to be made part of the hearing.”